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DE RUEHTU #2464/01 2721457
ZNR UUUUU ZZH
P 291457Z SEP 06
FM AMEMBASSY TUNIS
TO RUEHC/SECSTATE WASHDC PRIORITY 1941
INFO RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0798
RUEHAS/AMEMBASSY ALGIERS PRIORITY 7301
RUEHLO/AMEMBASSY LONDON PRIORITY 1185
RUEHNM/AMEMBASSY NOUAKCHOTT PRIORITY 0786
RUEHFR/AMEMBASSY PARIS PRIORITY 1638
RUEHRB/AMEMBASSY RABAT PRIORITY 8227
RUEHTRO/AMEMBASSY TRIPOLI PRIORITY 0399
RUEHCL/AMCONSUL CASABLANCA PRIORITY 3998
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
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UNCLAS SECTION 01 OF 02 TUNIS 002464

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STATE FOR NEA/MAG (HARRIS) AND EB/TPP/ABT (LERSTON)
STATE PASS USTR (BELL AND HEYLIGER), USPTO (ADLIN AND
ADAMS), USAID (MCCLOUD)
USDOC FOR ITA/MAC/ONE (ROTH), ITA/OTEXA (DANDREA), ADVOCACY
CTR (JAMES), AND CLDP (TEJTEL)
CASABLANCA FOR FCS (ORTIZ)
LONDON AND PARIS FOR NEA WATCHER

E.O. 12958: N/A

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SUBJECT: TUNISIAN TEXTILE SECTOR ADAPTS TO POST-QUOTA
REALITY

REF: A. STATE 138090

[1](#)B. TUNIS 2418

[1](#)1. (U) Summary: This is the first of a two-part series on the Tunisian textile sector. Part one addresses the impact of the end of the Multifiber Agreement on production and exports, as well as the sector's strategy for future competitiveness. After the end of the quota regime that existed under the Multifiber Agreement, the Tunisian textile sector has seen its export share erode in its traditional European markets. In spite of this, major textile organizations and enterprises assert that 2005 figures are much better than they feared. Faced with increased competition from cheaper Asian textiles, the GOT and Tunisian textile manufacturers have been seeking to move away from mass produced textiles to value-added textile products. End Summary.

[1](#)2. (U) Per Ref A request, Post has gathered the following statistics for the Tunisian textile sector for 2005:

- Total industrial production is estimated at 4.6 billion USD.
- Total textile production (including leather goods) was 3.7 billion USD.
- Textile/apparel share of total imports is 16.51 percent.
- Textile/apparel share of total exports is 31.82 percent.
- Exports of textiles/apparel to US is 21.18 million USD.
- Imports of textiles/apparel from the US is 10.73 million USD.
- Manufacturing employment is 543,400 jobs.
- Total textile employment is 194,000 jobs.

[1](#)3. (U) The textile sector occupies a crucial place in the Tunisian economy, accounting for nearly 32 percent of Tunisia's total exports. According to the GOT-founded Technical Center for Textiles (CETTEX), approximately 80 percent of Tunisian textiles are produced for export. Europe has long been, and continues to be, the main destination for

Tunisian textile exports, with over 96 percent of Tunisian textile exports bound for Europe. Nearly 83 percent of textile exports are to just four European countries -- France, Italy, Germany, and Belgium. The textile sector has also been an important source of foreign direct investment, with nearly 1,000 of the sector's 2,100 manufacturers partially or fully owned by foreign groups, usually from Europe. According to CETTEX, there are only 12 textile manufacturers with any U.S. investment.

¶4. (U) According to CETTEX Director General Nejib Karafi, 2005 results were "not as bad" as many industry experts had feared and the sector performed relatively well. Karafi admitted that there had been factory closures and that several companies had left Tunisia, but reasoned that these companies were non-competitive. Despite the relatively optimistic outlook presented by both CETTEX and the National Federation for Textile Employers (FENATEX), textile production in 2005 was 3.7 billion USD, down from 3.84 billion in 2004. The textile share in total exports has also decreased from 36.3 percent in 2004 to 31.82 in 2005. In 2005, Tunisia lost its position as the fourth largest clothing supplier to the EU, falling to sixth place behind Bangladesh (number 4) and India (number 5).

¶5. (U) So far, 2006 results do not look any better, with a moderate drop in both the volume and value of exports. According to CETTEX, exports of textiles during the first eight months of 2006 have totaled 2.97 billion dinars (roughly 2.24 billion USD), down from 3.06 billion dinars (2.30 billion USD) for the same period in 2005.

¶6. (U) Both the GOT and the major textile organizations have urged textile producers to abandon mass-produced basic

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products, for which the Chinese and other Asian producers have a comparative advantage due to lower labor costs, and move towards higher quality, value-added goods. Karafi stressed that Tunisia must try to profit from its comparative advantages -- proximity to Europe and the production of finished goods. Karafi expressed a desire to see Tunisians move into fashionable garments and to begin designing their own fashion lines. FENATEX Secretary General Ali Nakai also saw this as a natural progression noting that Tunisian textile manufacturers need to move from sub-contracting, the current status quo, to co-production. Both Karafi and Nakai emphasized the importance of expanding into new markets, such as Algeria, Libya, and other non-traditional European countries. Although Karafi viewed the United States as a potential, and currently underexploited, market for Tunisian textile products, Nakai largely dismissed the U.S. market. Nakai cautioned that Tunisian manufacturers currently do not possess the production capacity to meet the needs of the U.S. market.

¶7. (U) Given the importance of the textile sector to the Tunisian economy, the GOT has been active in trying to promote the sector and increase its competitiveness. CETTEX was created by the GOT to help textile companies adapt to this new situation by providing research, consulting services, and training. In addition to their consulting and training services, CETTEX also has laboratory facilities to conduct the testing necessary to certify that textile products conform to certain quality standards. In order to promote continued investment and job creation in textiles, the GOT has granted favorable tax and customs concessions to foreign investors such as Bennetton (ref B). The GOT has also created several special zones designated for textile production, such as the El Fejja finishing zone located 25 kilometers outside of Tunis, and the textile technology park in Monastir for textile production and research. Companies in these zones benefit from favorable tax concessions as well as GOT infrastructure development.

¶8. (SBU) Comment: Although the end of the Multifiber

Agreement has had negative impact on Tunisia's textile industry, the sector has adopted a sound strategy for maintaining future competitiveness. However, in the short term, the textile sector will continue to suffer losses as manufacturers abandon mass-produced, basic products and re-orient towards higher-quality garments. End Comment.
BALLARD